

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Straits Area Regional Ride	County Cheboygan
Audit Date 12/31/05	Opinion Date 3/31/06	Date Accountant Report Submitted to State: 7/25/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature <i>Anderson Tackman & Co PLC</i>		Date 7/25/06	

STRAITS REGIONAL RIDE

(an enterprise fund of the County of Cheboygan, Michigan)

FINANCIAL STATEMENTS

December 31, 2005

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
County of Cheboygan, Michigan
870 S. Main Street
Cheboygan, Michigan 49721

We have audited the accompanying financial statements of the Straits Regional Ride, an enterprise fund of the County of Cheboygan, Michigan, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Straits Regional Ride, enterprise fund of the County of Cheboygan, Michigan, as of December 31, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006 on our consideration of the Straits Regional Ride, enterprise fund of the County of Cheboygan, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Strait Area Regional Ride. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole. The supplemental information required by the Michigan Department of Transportation on schedules of mileage, vehicle hours, and number of passengers transported have not been subjected to auditing procedures applied in the audit of financial statements, and accordingly, we express no opinion on them.

The Straits Regional Ride has not presented the Management's Discussion and Analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 31, 2006

Financial Statements

County of Cheboygan, Michigan
Straits Regional Ride

Statement of Net Assets
December 31, 2005

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 73,593
Accounts Receivable	<u>5,346</u>
Total Current Assets	<u>78,939</u>

Capital Assets:

Vehicles and Equipment, less Accumulated Depreciation	<u>359,284</u>
Total Assets	<u>438,223</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	84,016
Advances from Other Funds	<u>6,868</u>
Total Current Liabilities	<u>90,884</u>

Net Assets:

Invested in Capital Assets	359,284
Unrestricted	<u>(11,945)</u>
Total Net Assets	<u>\$ 347,339</u>

County of Cheboygan, Michigan
Straits Regional Ride

**Statement of Revenues, Expenses, and
Changes in Net Assets
Year Ended December 31, 2005**

Operating Revenues:

Schedule 1 \$ 472,394

Operating Expenses:

Schedule 2 630,826

Operating Income (Loss) (158,432)

Non-Operating Revenues:

Schedule 3 122,567

Change in Net Assets (35,865)

Net Assets – January 1, 2005 383,204

Net Assets – December 31, 2005 \$ 347,339

County of Cheboygan, Michigan
Straits Regional Ride

Statement of Cash Flows
For the Year Ended December 31, 2005

Cash Flows from Operating Activities:

Cash received from customers or other governmental units	\$ 522,936
Cash payments for goods and services	<u>(543,936)</u>

Net Cash Provided (Used) by Operating Activities (21,000)

Cash Flows from Non-Capital and Related Financing Activities:

Transfers in – General Fund	<u>43,992</u>
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Net Cash Provided (Used) by Non-Capital and Related Financing Activities 43,992

Cash Flows from Capital and Related Financing Activities:

Acquisition of capital assets	(78,575)
Capital acquisition grants – received in cash	<u>78,575</u>

Net Cash Provided (Used) by Capital and Related Financing Activities -

Net Increase (Decrease) in Cash and Cash Equivalents 22,992

Cash and Cash Equivalents – Beginning of Year 50,601

Cash and Cash Equivalents – End of Year \$ 73,593

**Reconciliation of Operating Income (Loss) to Net
Cash Provided (Used) by Operating Activities:**

Operating Income (Loss) \$ (158,432)

Adjustments to Reconcile Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities:

Depreciation 117,130

Change in Assets and Liabilities:

(Increase) decrease in accounts receivable 50,542

Increase (decrease) in accounts payable 45,177

Increase (decrease) in due to other funds (75,417)

Net Cash Provided (Used) by Operating Activities \$ (21,000)

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Straits Regional Ride, an enterprise fund of the County of Cheboygan, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. Because Straits Regional Ride provides a service to citizens financed by a user charge and federal and state operating grants, the accounts of the Straits Regional Ride are accounted for as an enterprise fund. The following is a summary of the significant accounting policies used by the Fund:

Reporting Entity

In accordance with the criteria established by the Governmental Accounting Standards Board, the Straits Regional Ride, is considered an enterprise fund of the County of Cheboygan, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the County to significantly influence operations, the accountability for fiscal matters including the level of County financing and/or moral or legal responsibility for long-term debt. Therefore, the financial statements of the Straits Regional Ride Fund of the County of Cheboygan, Michigan is presented in the financial statements as an enterprise fund, which is an integral part of the financial reporting oversight unit of the County of Cheboygan, Michigan. Straits Regional Ride provides transportation services covering approximately 2,400 square miles to the residents of Cheboygan, Emmet, Otsego and Presque Isle Counties.

The Fund operates, maintains, and accounts for the County's Straits Regional Ride.

The Cheboygan County Board of Commissioners entered into a third-party contract with the Otsego County Board of Commissioners, by which the Otsego County Bus System is responsible for the operations of Straits Regional Ride. This annual contract expired on June 30, 2005 and was extended until September 30, 2005, at which time a new contract was signed covering the period October 1, 2005 through September 30, 2006.

Basis of Accounting

The accrual basis of accounting is used by the Fund. The Fund follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Fund has elected not to follow private sector standards used after November 30, 1989.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Bank Deposits

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Deposits are recorded at cost.

Capital Assets

Capital assets, which include vehicles and equipment, are reported in the financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Vehicles and equipment are depreciated using the straight-line method over the following useful lives.

Buses	3 to 7 years
Equipment	5 to 7 years

NOTE 2 - CASH AND CASH EQUIVALENTS

Statutory Authority:

Michigan law (Act 196 PA 1997) authorizes the County to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the Fund to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Fund's deposits are in accordance with statutory authority. All deposits are carried at cost.

Cash and Equivalents
Unrestricted

\$ 73,593

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the previous list of authorized investments. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The County's investment policy does not have specific limits in excess of state law on investment credit risk. The Fund has no investments for which ratings are required.

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, Straits Regional Ride's bank balance was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 3 - CAPITAL ASSETS

Capital assets activity was as follows for the year ending December 31, 2005:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital Assets Being Depreciated:</i>				
Equipment	\$ 28,984	\$ -	\$ -	\$ 28,984
Vehicles	<u>693,197</u>	<u>78,575</u>	<u>-</u>	<u>771,772</u>
Subtotal	<u>722,181</u>	<u>78,575</u>	<u>-</u>	<u>800,756</u>
<i>Less Accumulated Depreciation for:</i>				
Equipment	(15,761)	(4,556)	-	(20,317)
Vehicles	<u>(308,581)</u>	<u>(112,574)</u>	<u>-</u>	<u>(421,155)</u>
Subtotal	<u>(324,342)</u>	<u>(117,130)</u>	<u>-</u>	<u>(441,472)</u>
Net Capital Assets Being Depreciated	<u>\$ 397,839</u>	<u>\$ (38,555)</u>	<u>\$ -</u>	<u>\$ 359,284</u>

All capital assets were purchased with capital grants.

When federal or state funded assets are withdrawn from public transportation service, the disposition of the asset is determined by Michigan Department of Transportation. There was no such disposition of assets during 2005.

NOTE 4 - EMPLOYEES' RETIREMENT SYSTEM

As provided for in the third-party contract, Straits Regional Ride's full-time employees participate in the employee retirement system of Otsego County. Otsego County is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, and post-retirement adjustments to plan members and their beneficiaries.

NOTE 4 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

The Otsego County Bus System Fund employer contributions were made as actuarially determined in the December 31, 2002 evaluation, the most recent period for which actuarial data was available for the calendar year ended December 31, 2005. The annual actuarial report for Otsego County is dated each year for the period December 31 and has no separate data for the Otsego County Bus System or Straits Regional Ride. Accordingly, there is no separate data to report here.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Fund Policy

The members are not required to contribute to the plan. The Otsego County Bus System's pension contribution of covered payroll for the period ending December 31, 2003, 2004 and 2005 was 7.18% of covered wages.

If a member leaves the employ of the municipality or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions (with 5% interest) are refunded to the member, if living, or to the member's beneficiary.

Annual Pension Cost

Actuarial report contains information on Otsego County as a whole. The most recent data available is as follows:

The County pays the Otsego County Bus System's pension during the calendar year ended December 31, 2005, the County's contributions totaled \$833,027; and during the calendar year ended December 31, 2004, the County's contributions totaled \$680,432. These contributions were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2002 and 2003 respectively. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

NOTE 4 - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three year trend information as of December 31, follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$ 8,862,940	\$ 9,846,623	\$ 10,723,733
Actuarial Accrued Liability	13,282,225	14,272,389	15,402,046
Unfunded AAL	4,419,285	4,425,766	4,678,313
Funded Ratio	67%	69%	70%
Covered Payroll	5,579,432	5,370,888	5,323,075
UAAL as a Percentage of Covered Payroll	79%	82%	88%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 680,432	100%	\$ -
2004	726,048	100%	-
2005	833,027	100%	-

NOTE 5 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS

As provided for in the third-party contract, Straits Regional Ride is included in Otsego County's provisions for risk management. The following Otsego County provisions apply to the calendar year ending December 31, 2005.

Otsego County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. The following is a summary of these self-insurance programs and risk management pool participation.

Otsego County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage, and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan, which authorize local units of government to jointly exercise any power, privilege, or authority which each might exercise separately.

NOTE 5 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund using premiums paid into it by other funds of the government. Such contributions are received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the member retention fund are used for loss payments and defense costs up to the members' self-insurance retention limits along with certain other member-specific costs.

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2005, the balance of Otsego County's member retention was \$70,885.

<u>Coverage</u>	<u>Self-Insured Retention</u>
Liability	\$75,000
Vehicle Physical Damage \$1,000 Member Deductible	\$15,000 Per Vehicle \$30,000 Per Occurrence
Property and Crime \$1,000 Deductible Per Occurrence	10% of the Next \$100,000
Employee Benefits	Commercial Insurance Provider

Supplemental Information

County of Cheboygan, Michigan
Straits Regional Ride

Schedule I
Operating Revenues
Year Ended December 31, 2005

	<u>Jan-Sept</u>	<u>Oct-Dec</u>	<u>Total</u>
Fare Box Revenue			
Passenger Fares	\$ 27,653	\$ 9,252	\$ 36,905
Contract Fares	115,259	39,230	154,489
Revenue from Other Counties			
Emmet County Appropriation	11,058	3,675	14,733
Otsego County Appropriation	10,510	1,770	12,280
Presque Isle County Appropriation	10,452	1,570	12,022
	<u>174,932</u>	<u>55,497</u>	<u>230,429</u>
State of Michigan Operating Grants			
Formula Operating Assistance	<u>157,402</u>	<u>54,936</u>	<u>212,338</u>
Federal Operating Grants			
U.S. DOT Operating Grant - Section 5311	<u>18,451</u>	<u>11,176</u>	<u>29,627</u>
Total Operating Revenues	<u>\$ 350,785</u>	<u>\$ 121,609</u>	<u>\$ 472,394</u>

County of Cheboygan, Michigan
Straits Regional Ride

Schedule II
Operating Expenses
Year Ended December 31, 2005

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor				
Operator's Salaries and Wages	\$ 176,389	\$ -	\$ -	\$ 176,389
Other Salaries and Wages	-	-	32,747	32,747
Dispatchers	57,130	-	-	57,130
Fringe Benefits	89,236	-	12,514	101,750
Services				
Advertising Fees	-	-	384	384
Audit	-	-	3,500	3,500
Materials and Supplies Consumed				
Fuel and Lubricants	83,014	-	-	83,014
Tires and Tubes	13,409	-	-	13,409
Major Supplies	6,880	-	-	6,880
Other Materials and Supplies	17,986	-	-	17,986
Insurance				
Premiums for Public Liability and Property Damage Insurance	11,399	-	-	11,399
Operating Leases and Rentals	-	-	9,108	9,108
Depreciation	117,130	-	-	117,130
Total Operating Expenses	<u>\$ 572,573</u>	<u>\$ -</u>	<u>\$ 58,253</u>	<u>\$ 630,826</u>

County of Cheboygan, Michigan
Straits Regional Ride

Schedule III
Non-Operating Revenues
Year Ended December 31, 2005

Local Operating Grants	
Schedule 4	<u>\$ 43,992</u>
Capital Equipment Grants	
Federal	64,562
State	<u>14,013</u>
Subtotal Capital Equipment Grants	<u>78,575</u>
Total Nonoperating Revenues	<u><u>\$ 122,567</u></u>

County of Cheboygan, Michigan
Straits Regional Ride

Schedule IV
Local Operating Revenues
Year Ended December 31, 2005

	<u>Jan-Sept</u>	<u>Oct-Dec</u>	<u>Total</u>
Local Operating Grants			
Cheboygan County Appropriation	<u>\$ 17,604</u>	<u>\$ 26,388</u>	<u>\$ 43,992</u>
Total Local Operating Grants	<u><u>\$ 17,604</u></u>	<u><u>\$ 26,388</u></u>	<u><u>\$ 43,992</u></u>

County of Cheboygan, Michigan
Straits Regional Ride

Schedule V
Capital Contracts/Contributions
Year Ended December 31, 2005

Contract #	<u>Grant Amount</u>	<u>Previous Amount Earned</u>	<u>Amount Earned 2005</u>	<u>Amount Remaining</u>
2002-0028Z11	<u>\$ 81,670</u>	<u>\$ -</u>	<u>\$ 78,575</u>	<u>\$ 3,095</u>
	<u><u>\$ 81,670</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 78,575</u></u>	<u><u>\$ 3,095</u></u>

The Federal portion of amount earned in 2005 is \$64,562.

County of Cheboygan, Michigan
Straits Regional Ride

Schedule VI
Expenses by Contract and General Operations
Year Ended December 31, 2005

	<u>2005 Operations</u>	<u>Total</u>
Labor	\$ 266,266	\$ 266,266
Fringe Benefits	101,750	101,750
Services	3,884	3,884
Materials and Supplies	121,289	121,289
Insurance	11,399	11,399
Operating Leases and Rentals	9,108	9,108
Depreciation	<u>117,130</u>	<u>117,130</u>
 Total	 630,826	 630,826
 Less		
Ineligible Expenses	<u>(117,130)</u>	<u>(117,130)</u>
Total Eligible Expenses	<u><u>\$ 513,696</u></u>	<u><u>\$ 513,696</u></u>

County of Cheboygan, Michigan
Straits Regional Ride

Schedule VII
Net Eligible Costs Computations of General Operations
Year Ended December 31, 2005

	<u>Jan-Sept</u> Federal Section 5311	<u>Oct-Dec</u> Federal Section 5311	<u>Total</u> 1/1/2005 12/31/2005
Expenses			
Labor	\$ 207,413	\$ 58,853	\$ 266,266
Fringe Benefits	67,374	34,376	101,750
Services	2,879	1,005	3,884
Materials and Supplies	90,752	30,537	121,289
Insurance	7,668	3,731	11,399
Operating Leases and Rentals	6,999	2,109	9,108
Depreciation	<u>87,847</u>	<u>29,283</u>	<u>117,130</u>
Total Expenses	<u>470,932</u>	<u>159,894</u>	<u>630,826</u>
Less Ineligible Expenses			
Depreciation	<u>87,847</u>	<u>29,283</u>	<u>117,130</u>
Total Ineligible Expenses	<u>87,847</u>	<u>29,283</u>	<u>117,130</u>
Net Eligible Expenses	<u><u>\$ 383,085</u></u>	<u><u>\$ 130,611</u></u>	<u><u>\$ 513,696</u></u>
Maximum Section 5311 Reimbursement (10.95% for 01-01-05 to 09-30-05)			<u><u>\$ 41,948</u></u>
Maximum Section 5311 Reimbursement (15.00% for 10-01-05 to 12-31-05)			<u><u>\$ 19,592</u></u>
Maximum Section 5311 (Formerly Sec. 18)			<u><u>\$ 61,539</u></u>
Limited by Contract to			<u><u>\$ 29,627</u></u>

Federal Section 5311 expenses are only those expenses incurred in providing service to nonurbanized areas.

County of Cheboygan, Michigan
Straits Regional Ride

Schedule VIII
Detail of Ineligible Expenses
Year Ended December 31, 2005

Depreciation

Depreciation accrued by public operators is ineligible according to Section 5311 Requirements. The ineligible depreciation amount was \$117,130.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

March 31, 2006

Board of Commissioners
County of Cheboygan, Michigan
870 S. Main Street
Cheboygan, Michigan 49721

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the twelve months ended December 31, 2005, follows. This supplemental information was not audited by us, and accordingly, we do not express an opinion on it. However, we have reviewed the compilation methods for mileage and passenger data and found them reliable.

Respectively,

Anderson Tackman & Co, PLC

County of Cheboygan, Michigan
Straits Regional Ride

Schedule IX

Mileage Data, Vehicle Hours and Passengers
Year Ended December 31, 2005

	Public Transportation <u>Mileage</u>	<u>Vehicle Hours</u>	<u>Regular Passengers</u>	<u>Senior Passengers</u>	<u>Handicapped Passengers</u>	<u>Days Operated</u>
Demand-Response						
1st Quarter	74,561	2,996	1,888	124	6,150	63
2nd Quarter	81,037	3,283	1,224	302	7,458	62
3rd Quarter	86,318	3,268	1,983	335	7,093	68
4th Quarter	<u>78,027</u>	<u>2,883</u>	<u>942</u>	<u>199</u>	<u>6,685</u>	<u>59</u>
Total Operations	<u><u>319,943</u></u>	<u><u>12,430</u></u>	<u><u>6,037</u></u>	<u><u>960</u></u>	<u><u>27,386</u></u>	<u><u>252</u></u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
County of Cheboygan, Michigan
870 S. Main Street
Cheboygan, Michigan 49721

We have audited the accompanying financial statements of the Straits Regional Ride, an enterprise fund of the County of Cheboygan, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Straits Regional Ride, an enterprise fund of the County of Cheboygan, Michigan's financial statements and have issued our report thereon, dated March 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Straits Regional Ride, an enterprise fund of the County of Cheboygan, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Straits Regional Ride, an enterprise fund of the County of Cheboygan, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of Straits Regional Ride, an enterprise fund of the County of Cheboygan, Michigan in a separate letter dated March 31, 2006.

This report is intended solely for the information and use of the Board of Commissioners of the County of Cheboygan, Michigan, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

March 31, 2006



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT TO MANAGEMENT

Board of Commissioners
County of Cheboygan, Michigan
870 S. Main Street
Cheboygan, Michigan 49721

We have audited the financial statements of the Straits Regional Ride, an enterprise fund of the County of Cheboygan, Michigan for the year ended December 31, 2005, and have issued our reports thereon dated March 31, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Straits Regional Ride. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Straits Regional Ride's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Straits Regional Ride are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Straits Regional Ride during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability. An example of an estimate used by Straits Regional Ride is the useful lives of their capital assets.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Straits Regional Ride's financial reporting process (that is, cause financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Straits Regional Ride, either individually or in the aggregate indicate matters that could have a significant effect on the Straits Regional Ride's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Straits Regional Ride’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Straits Regional Ride’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit. Other communications were communicated orally with management during the audit process.

Comments and Recommendations

Fare Collection

Internal controls should be enhanced to store and safeguard the fares collected from passengers on the bus. Metal lock boxes are already in place in each bus; however, they are not utilized. The bus driver stores the money, tokens, or coupons in an envelope that they retain on their person or on their clipboard.

It is recommended that a policy be established that all passengers are to deposit their fare in the lock boxes while under observation of the driver. This would help to minimize both time spent handling money and the chances of loss/theft while utilizing safeguards that are already in place.

Receipts

At the end of each shift, each driver places the monies and other forms of payment (received that day) in a pre-printed envelope that is kept in a drawer in the dispatchers’ office until the next day when it is counted. A receipt for the monies is then generated through Excel and attached to the daily records. No receipt is given to the drivers nor are they able to confirm the amount of monies that they turned in on the previous evening. Besides the lock on the office door, there are no safeguards to ensure the security of the paper envelopes that contain the individual driver’s fare collections. The airport administration and each driver (full and part-time) have a key to the dispatchers’ office. This leaves the cash fares vulnerable to theft.

It is recommended that a lock box (similar to that found on the buses) be secured in the dispatchers' office. This box should have an envelope slot in the top through which the drivers could insert their individual fare envelopes.

It is further recommended that a system of accountability be established whereby the driver and the dispatchers' office could verify the amount of money turned in each evening. This could be done utilizing the same Excel file generated sequentially numbered receipts as are currently in use.

For example, one numbered receipt could be generated and inserted in each pre-printed envelope after the daily cash count. Every evening, when the driver takes his/her assigned envelope out of the drawer and takes out the receipt. The driver would place the fares collected that day in the envelope. He/she would annotate the amount of money collected on the receipt and initial next to the amount. This receipt would be put back in the envelope and the envelope inserted into the slot in the lock box. When the dispatcher performs the money count on the next day, he/she could confirm the amount in the envelope by initialing next to the driver's initials. The receipt could then be attached to the daily records as is the current practice. Finally, the dispatcher would replace the previous night's receipt with a new one, and place the envelope back in the drawer.

Tokens

Tokens are sold to passengers in lots of 10. These tokens are priced at \$4 or \$5 each (depending upon the age of the passenger using them). The procedure for purchasing tokens is as follows:

A passenger calls the dispatch office to request a ride. If that passenger desires to purchase tokens, he/she informs the dispatch office during that phone call. The dispatcher will give the requested tokens to the bus driver on the day of the scheduled pickup. When the passenger gets on the bus, the driver gives the tokens to the passenger in exchange for payment. The driver then turns the money in to the dispatcher along with the regular fares collected that day.

While the money is kept locked in a safe until it is deposited in the bank, no such security measures are utilized for the tokens. They are kept in a drawer or on a shelf in the dispatch office.

We recommend, that because the tokens are readily exchanged for cash with anyone desiring to ride the bus, they be stored inside the safe until they are signed out to bus drivers. It is further recommended (for accountability purposes) to have the drivers sign for the number of tokens taken out and for that number to be reconciled against the amount of money that the driver brings back at the end of the shift.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of management and the Board of Commissioners, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 31, 2006